

In the Marketplace

Planning well before you sell

Brian Giguere
Cardente Real Estate



“**B**etween 1946 and 1964, about 75 million people were born in the United States – the “baby boom.” In less than two months, millions of these baby boomers will begin to retire, about 16 percent of which own their own business.

Not surprisingly, many business owners are too busy performing the daily operations and don’t have an exit strategy. For all you business owners out there, **PLAN AHEAD!** The largest asset you own may very well be your business.

Here are two things to keep in mind while planning your exit strategy. (In another column in the near future, I’ll address several more.)

First, choose the right people to work with and pick the right time. Good business brokers are ones that aren’t afraid to tell you, “This isn’t the right time for you to sell.” Many businesses need to improve their growth or some other aspect for a few years prior to a sale as selling on an upward trend will gain the owner a greater profit.

Second, determine a realistic price and be willing to hold some paper.

Pricing of businesses is mainly the broker’s job, but you should realize the average business sells for 3 X cash flow, which is what your business Earns Before Interest, Taxes, Depreciation and Owner’s compensation (EBITDO).

In a typical transaction, the financial institution will lend the purchaser a certain percentage based on the value of the real property and cash flow.

The purchaser will also have to come up with a down-payment, but more often than not, there will be a gap that the seller will need to fill. The good news is, the seller isn’t actually taking any money out of their pocket, they’re actually putting more in.

Businesses have an intangible value such as long-term customers/clients, trade name, and reputation, which the seller needs to be compensated for and holding a note may enable the deal to get done. Get your family on board. Whether or not there is a family member willing or able to take over the business, they should play an integral role in helping you make your decision and at the very least, supporting your desires and wishes whatever they may be.

Don’t go at it alone, work with a business broker. Many owners believe they can save money by selling their businesses on their own. For some, this may work out. However, often times selling your own business can end up being more costly than a brokerage commission. If you’re in legal trouble, hire an attorney. If you’re getting audited, hire an accountant. If you’re selling a business, hire a business broker. Most owners’, for good reason, are too attached to what they have put their love and sweat into. Entrusting the sale to a professional will only make the transaction smoother. Also, a broker will hopefully maximize your gain, which should offset the commission anyway.

Plan from within. A successful business owner knows their operations inside and out, but does anyone else in the company truly know the “day to day” operations? As part of the transition period, a purchaser of a company will typically receive the owner’s expertise for a set amount of time. However, having others in the company know the mechanics of the operation will make the transaction that much easier.

The coming years shall prove to be very exciting for both sellers and buyers as there will certainly be numerous opportunities in a wide range of industries. As this article has only discussed how owners should prepare for this endeavor, next time we will look at a typical transaction from the buyer’s perspective.